

COMMUNITY DEVELOPMENT BANKERS ASSOCIATION  
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WASHINGTON DC 20005

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November 3, 2003

Ms. Jennifer J. Johnson  
Secretary, Board of Governors of the Federal Reserve System  
Twentieth Street and Constitution Avenue, NW  
Washington, DC 20551  
**Attention: Docket No. R-1154**

Dear Ms. Johnson:

The Community Development Bankers Association (CDBA) thanks you for the opportunity to comment on the proposed Risk-Based Capital Rules, commonly known as the Basel proposals, and we request that you consider the following.

CDBA is the national trade association of the Community Development Bank sector. Our mission is to promote the growth and development of Community Development Banks through sharing of best practices, educating policy makers, and otherwise enhancing the ability of our members to better serve low and moderate income communities across the United States.

We wish to strongly support the concerns raised by the National Association of Affordable Housing Lenders (NAAHL) with respect to the Basel proposals. Specifically, we are concerned that the proposed rule may have significant unintended consequences that will impact the total amount of equity capital invested in housing and community development activities nationwide. The proposal appears to be in conflict with 12 CFR Part 24, the regulation governing investments that are designed primarily to promote the public welfare.

We commend U.S. banking regulatory agencies for their efforts to recognize the valuable role of these investments as evidenced by inclusion of the special rule for "Legislated Program Equity Exposures." However, the "materiality" test of the proposed rule is highly problematic for community investment activities. This test would require institutions that have, on average, more than 10 percent of their capital in ALL equity investments, to set aside much higher amounts of capital on their non-CRA investments. As drafted, this calculation includes CRA investments that are specifically held harmless from the new capital charges. We believe that including CRA investments in this calculation could create harmful competition between investments in "CEDES" (CRA equity investments) and all other equity investments in the context of the "materiality bucket." Furthermore, we fear that the calculation would create competition between CRA investments that are equity investments and other community development finance instruments such as mortgage-backed-securities and loan pools.

Pitting CEDE investments against higher-yielding, more liquid and more volatile equity exposures will have an unintended chilling effect on the flow of capital to low and moderate income communities. In recent years, insured depository institutions have made significant strides in improving their credit delivery and investments in

low and moderate income communities. In fact, numerous institutions that have been active participants in the Low Income Housing Tax Credit program or that have made substantial commitments to supporting Community Development Financial Institutions, approach or even exceed, the 10 percent cap from CRA-qualified investments alone. While the proposed rule grandfathers some investment activities, the long term impact of the rule will be to reverse key gains that have been made which benefit low and moderate income communities. While the proposed rule is intended to apply only the largest banks, it will likely create a chilling affect of the entire community investment industry with other banks voluntarily complying with the rule.

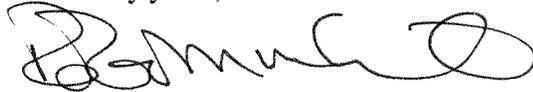
It is clear that U.S. banking regulatory agencies understand the key role of CRA equity investments in revitalizing low and moderate income communities. However, despite efforts to carve out these activities in the special rule, additional work is needed to ensure that the new rule does not result in harm to our communities.

**CDBA Recommendations:**

- The rule should clarify that “investments in CEDES” comprise all types of activities that are eligible for bank investment under Part 24 as “Legislated Program Equity Investments” that are held harmless from higher capital charges.
- The rule should exclude all CRA-related equity investments that qualify under the Part 24 regulations from the materiality test calculation.
- The proposal that SBIC investments receive only a “Partial Exclusion” from higher capital charges should not be expanded to include any other CRA-related equity investments.
- The ANPR proposes a “cliff effect”, whereby if total equity investments and/or SBIC ones exceed 10% of capital, all of the non-CRA and SBIC equity investments then require higher capital. We suggest that only the additional equity investments above the 10% level should require more capital.

Again, we thank you for the opportunity to comment on the proposed rule. We strongly urge you to give consideration to the views expressed herein to ensure that the proposed rule does not negatively impact low and moderate income communities.

Sincerely yours,



Robert M. McGill  
Board Chairman  
Community Development Bankers Association

Cc: Jeannine Jacokes, Executive Director CDBA